Chapter III

CONTRACTUAL ASPECTS OF VE

Introduction

Prior to the publication of the VE portions of the acquisition regulation, there was little or no financial incentive for a contractor to submit engineering change proposals that saved money. Until then the usual result of Government acceptance of a contract cost-reduction change proposal was a reduction in the contract value. This reduction was generally accompanied by an attendant reduction in profit or fee. Since a contractor's success was derived from fees and expected profit, reluctance to propose cost reduction actions in such circumstances is understandable. Now a positive incentive has been created through the development of the DoD VE contract clauses.

"It is now DoD policy to promote VE actions that will reduce cost and improve the productivity of DoD in-house and contractor resources."[1] One--of the results of a purposeful contractor VE program is expected to be contract or engineering change proposals that offer a saving to the Government and thus are VECPs. However, acceptance of a VECP does not depend upon it being the result of using the VE methodology. In fact, a VECP must meet only two criteria: (1) it requires a change to the contract and (2) it saves money for the Government.

The DoD VE contract clauses encourage industry to challenge unrealistic Government requirements and specifications and to profit by doing so. These clauses are unlike other contract incentives which reward efficient performance according to the stated terms of the contract. VE contract clauses reward the contractor who proposes acceptable changes to the contract which will result in equal or better but lower-cost defense products. These changes are mutually advantageous to the Government and the contractor because both share the resultant savings. The DoD VE contract clauses encourage entrepreneurship by rewarding contractors equitably for their initiative in developing VECPs.

Benefits

A. To the DoD

The DoD is interested in VE contract clauses for two reasons. First, VE generally improves or updates the product. The American Ordnance Association (AOA) studies (Figure I-2) demonstrated that VE generally results in a better product. The Genesis of VE Opportunity Study (Figure I-1) indicates that even a well-designed product can usually be improved due to the subsequent availability of more information, added insight, or new technology. Second, VE is a convenient means to foster greater economy. In his December 14, 1979, affordability and VE letter to the Military Services, the Deputy Under Secretary of Defense '(Acquisition Policy) suggested an annual goal for VECP savings of 0.7 of 1 percent of the procurement Total Obligational Authority (TOA) (as expressed in the January P-1 document supporting the President's budget) was reasonable. and attainable. To date reported VECP savings, while impressive, do not reflect the full potential of the contractor VECP program.

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1. DoD Directive 4245.8, "DoD Value Engineering Program," May 7, 1984.

It should be noted the savings that have been reported are based on conservative estimates. It is possible that the actual savings will exceed those reported. The benefits usually remain with the program, command, or component implementing the proposal. The funds which are thus freed can be reapplied within the program, command, or component for authorized but unfunded requirements. Savings benefits are an acceptable way to generate the ability to pay for what would otherwise be unaffordable.

B. To DoD Contractors

It might be well to emphasize that VE contract clauses are but one of the means by which a good VE program can contribute to a contractor's competitive position and profit. Others are:

- Pre-contract VE can help make proposals more attractive to the customer.
- VE is frequently a factor in source selection. Other things being equal, it could be a decisive factor.
- VE successes can be an element in the contract-performance evaluation program.
- As an element in the weighted guidelines, past VE performance may contribute to improved negotiated fee or profit on new contracts.
- Benefits from unilateral (Class II) contractor VEPS usually revert entirely to the contractor.
- The contractor may benefit financially by sharing in VE savings offered by subcontractors.

But, the primary stimulus to encourage participation by contractors is the profit motive, as shown by the following statistics:

- Of over 5,000 contractor VECPs submitted, about 50 percent have been approved to date.
- Contractors earn about 43 cents for each dollar the DoD saves through approved VECPs.

The objective of the DoD VE program is to motivate the defense contractor to practice VE and to exercise the VE provisions in their contracts by submitting VECPs. The incentives are the money they receive from a share of the cost savings resulting from the approved changes to their contracts. Contractors are also encouraged to include VE sharing arrangements in subcontracts and to benefit by doing so.

The acceptability of a contractor's VECP is dependent upon the knowledge, insight, and care applied during its preparation and processing. In return, the Government owes the contractor fair, timely, and objective evaluation of VECPs . The purpose of this chapter is to provide information and suggestions that will contribute to the effectiveness of the contractor's VE efforts. It is designed to answer questions concerning the What-Why-When-Where-Who- and How of contractual VE.

What a VECP Is

A VECP is a proposal submitted by a contractor to the Government in accordance with the VE provisions of the contract. It proposes a change which, if accepted and implemented, provides an overall cost savings to the Government. The VE provisions in a contract permit the contractor to share in the savings which accrue from implementing the change. In other words, the VECP provides the means to lower defense costs while increasing the contractor's rate of return on investment. Thus, the VECP becomes both a contractor and a Government management tool. This definition includes VECPs which would produce collateral savings in Government furnished property (GFP), operations, maintenance, or other areas which exceed any increased acquisition cost and do not impair functions or characteristics.

In order to qualify as a VECP so that a savings can be shared, the proposed change must meet two primary requirements:

1. It must require a change to the instant contract to implement; and
2. It must provide an overall cost savings to the Government without impairing essential functions or characteristics, provided that it does not involve a change:

   - In deliverable quantities only,
   - In Research and Development (RD) quantities or test quantities due solely to results of previous testing under the instant contract.
   - To the contract type only.

The Preliminary VECP

The term preliminary VECP is derived from MIL-STD 480 and is used in a similar manner. It is not a mandatory form. A preliminary VECP can be used to submit an initial proposal to the Government before the submission of a final VECP. Use of a preliminary VECP is appropriate when the development of the final VECP would require a contractor to risk significant funds. The contractor may use the preliminary VECP to notify the Principal Contracting Officer (PCO) of the initial proposal, provide information concerning the potential for cost reduction, indicate the approximate costs for developing the VECP and the estimated savings that might be achieved, and an early assessment of advantages and disadvantages.

The PCO typically forwards a preliminary VECP to the Engineering Support Activity (ESA) for an initial evaluation to ensure that the proposal has technical merit and deserves to be developed into a final VECP submission. Often this results in discussions between the Government and the contractor until a suitable understanding is reached. The PCO then indicates whether the idea deserves additional study, or should not be pursued any further due to circumstances known to the PCO or the ESA. The contractor should be aware that an indication from the PCO that the idea has potential, does not guarantee that the final VECP submission will be accepted. As with any VECP, there is still the possibility that it might be rejected, and there is, therefore, some

element of risk involved. The idea behind the preliminary VECP is to reduce this risk so that the contractor does not expend significant funds on ideas that have little or no chance of being accepted.

Use of the preliminary VECP carries with it some risk in multiple source situations. A contractor would have to weigh the risks of inadvertent disclosure to a competitor versus the risk of investing time and money for a VECP that is of little or no interest to its customer.

Types of VE Provisions in DoD Contracts

The FAR of April 1, 1984, and the DoD FAR Supplement prescribes the DoD VE contract clauses. They also establish policy and procedures for the program or buying office to use to construct the VE arrangements in a particular contract or on a specific acquisition program.

FAR Sections 52.248-2 and -3 describe clauses for use in architect-engineer and construction contracts respectively. For weapon systems and weapon system elements, the FAR Section 52.248-1 provides two basic alternatives: (1) an incentive approach in which contractors take part voluntarily, and (2) a mandatory program through which the Government requires and pays for a specific level of VE effort. A combination of the two approaches may be used in some instances. A discussion of these two approaches follows:

A. Value Engineering Incentive (VEI)

The basic VEI is used in supply and service contracts and subcontracts for:

- Spare parts and repair kits of $25,000 or more for other than standard commercial parts.

- Other contracts with a value of $100,000 or more.

The VEI may be included in supply or service contracts of lesser value if the contracting officer determines there is a potential for significant savings. Exceptions to this policy include contracts for: research and development (other than FSED), engineering services from not-for-profit organizations, personal services, product or component improvement (unless the VE clause application is restricted to areas not covered by the provisions for product or component improvement), or standard commercial items that do not involve any special requirements or specifications.

The VEI provisions of a contract do not obligate the contractor to take any action. The VEI clause is intended to encourage the contractor to take part voluntarily by sharing with the contractor the actual or estimated cost savings the Government receives from VECPS which the contractor undertook on its own initiative.

The FAR provides for payment of the costs of preparing a VECP if it is accepted. The contractor and the Government share in the net savings. Development costs related to. unsuccessful VECPS are generally not allowed in accordance with the cost allowability principles of the FAR.

B. Value Engineering Program Requirement (VEPR)

In addition to the basic VEI clause, the FAR provides an alternate provision that allows the contracting officer to incorporate into a contract a mandatory VE activity known as the VEPR. The VEPR is a separately priced line item in the contract that specifies a certain level of VE activity and the portion (or portions) of the contract work to which it applies. Benefits are expected not only from the submission of VECPs, but also from a continuous VE effort by the contractor in order to get results earlier. Thus, drawings, specifications, methods, and processes will reflect the full benefit of VE in the initial stages of design, development, and production. The contractor may be required to submit reports reflecting the results of this effort. Within DoD, MIL-STD-1771 is used to establish minimum contractor requirements and standards of performance for the VEPR. The sharing arrangements for approved VECPs originated under VEPRS are less for the con-tractor than the share provided for VECPs submitted under the VEI.

The contracting officer may incorporate both the VEI and VEPR clauses into the same contract. The VEPR is restricted in the contract schedule to specifically defined performance areas , while the basic VEI clause is used to cover the remaining areas of the contract.

Sharing VECP Savings

There are two basic types of savings that can be shared when a VECP is approved and implemented. They are acquisition and collateral savings.

A. Acquisition Savings

1. Supplies and Services

Acquisition savings may include savings from the instant contract, concurrent contracts, and future contracts. The VECP is submitted under the instant contract. If the VECP is accepted and implemented on items delivered on the instant contract, the contractor receives a percentage of the net savings that accrue as'a result of the VECP. In calculating these savings, contractor costs of developing and implementing the VECP and the Government's cost of implementation are all subtracted from the gross saving before sharing begins. Therefore, it is important that the contractor identify and record (for audit purposes) the costs incurred in developing and implementing the VECP . Development costs are expenses incurred after it has been determined that a VECP will be prepared and before the Government accepts the VECP. Implementation costs are expenses that will be incurred to implement the change after the VECP has been approved. All development and implementation costs must be offset before any sharing of acquisition savings may occur.

Concurrent contracts are those current contracts awarded by the acquisition activity to the contractor or other contractors for essentially the same item. If the contracting office directs that the VECP be incorporated into concurrent contracts, the contractor originating the VECP will share in the net reduction-in price which are negotiated on concurrent contracts. The contractor does not begin to share concurrent contract savings until all costs of developing and implementing the VECP are offset.

To the degree that instant contract savings exceed development and implementation cost, these savings represent a reduction in the dollars associated with the current contract as well as a planned reduction in the amount of concurrent and future contracts. The contractor's share of the savings, by definition must be less than the total, and is intended as partial compensation for the loss in current and potential future billings resulting from the accepted VECP.

Future contracts are for items incorporating the VECP that are awarded after the VECP is approved. Future contract savings may be shared on all affected items scheduled for delivery within three years after the first item that incorporates the VECP is accepted. These future contract savings may be shared in one of two ways. The first is through a series of payments made for the contractor's share of savingsas future contracts are awarded. This method of sharing is referred to as the "royalty" method. Under an alternate procedure, known as the "lump sum" method, the instant contract may provide that the contractor accept its share of future contract savings in one lump sum, based on the contracting officer's projection of the total number of units that will be delivered during the sharing period. Under both methods, the contractor's share of future contract savings is added to the instant contract price. The instant contract, therefore, cannot be completed until all VECP savings awards to the contractor have been made.

For multi-year contracts that run for more than three years after the first item is accepted, the sharing period covers all items accepted before the originally scheduled contract completion date. If the VECP is submitted during the design or limited-production phase, future sharing is based on that quantity of units produced during the highest 36 consecutive months of anticipated production based on the Five-Year Defense Program (FYDP) or other planning documentation existing when the VECP is accepted.

The sharing rates (Government/contractor) for acquisition savings for supplies and services are based on the type of contract, the VE clause, and the type of savings as shown in Figure III-1.

For Supply and Service Contracts, the sharing ratios are:

Type of Contract	VE Incentive (Voluntary)		VE Program Requirement (Mandatory)	
	Instant	Concurrent and Future	Instant	Concurrent and Future
Fixed Price (Other than incentive)	*50/50*	*50/50*	*75/25*	*75/25*
Incentive (Fixed-price or cost)	*	*50/50*	*	*75/25*
Cost-reimbursement** (Other than incentive)	*75/25*	*75/25*	85/15	85/15

*Same ratio as the contract's cost incentive ratio
**Includes cost-plus-award-fee contracts

Figure III-1

2. Construction

A separate VE clause (FAR 52.248-2) is used for construction contracts. Sharing on construction contracts applies only to savings on the instant contract. The sharing rates (Government and contractor) are as follows:

Fixed-Price*	45/55	Cost Reimbursement*	75/25

*Other than incentive.

For incentive contracts, sharing is the same as the contract cost incentive ratio.

3. Architect-Engineer

The basic VEI clause may not be used for Architect-Engineer (A-E) contracts. When the VEPR is included in an A-E contract, the clause (FAR 52.248-3) makes no provision for sharing on accepted VECPs resulting from the paid VE effort.

4. No Cost Settlement

In order to minimize the administrative costs for both parties on small dollar individual VECPs, consideration should be given to the settlement of a VECP submitted against the VEI clause of the contract at "no cost" to either party. Under this method of settlement, the contractor would keep all of the savings on the instant contract, and all savings on its concurrent contracts only. The Government would keep all savings resulting from current contracts awarded to other contractors, savings from all future contracts and all collateral savings. Use of this method must be by mutual agreement of both parties for individual VECPS.

The benefits of an accepted VECP should not be rewarded both as VE shares and pursuant to performance, design-to-cost, or similar incentives of the contract. Thus, when performance, design-to-cost , or similar targets are set and incentivized, the targets of such incentives affected by the VECP are not adjusted because of the acceptance of the VECP. Only those benefits of an accepted VECP that are not rewardable under other incentives are rewarded under a VE clause.

B. . Collateral Savings

Collateral savings are measurable net reductions in costs of operation, maintenance, logistics and support alternatives, shipping costs, stock levels, or GFP when these savings are a result of an accepted VECP. In some cases, a VECP may increase the acquisition cost of an item but result in larger collateral savings. For collateral savings, the contractor is entitled to 20 percent of the net savings that the purchasing office estimates will be realized during an average one-year period. However, the contractor's share cannot exceed $100,000 or the contract's firm-fixed-price, target price, target cost, or estimated cost at the time the VECP is accepted, whichever is greater. The amount of collateral savings is determined by the purchasing activity, and its determination is not subject to the "disputes" clause of the contract. Collateral savings provisions are included in contracts whenever an opportunity may exist for savings. They are intended to focus the

contractor's attention on savings benefits other than acquisition savings. However, because the savings share is not intended as a partial replacement for a reduction in the contractor's current or future billings, the contractor's share of collateral savings, although substantial, is nonetheless smaller than its share of acquisition 'savings.

The collateral savings provision may be excluded from a contract at the discretion of the head of the contracting activity. This is done when it is anticipated that the cost of computing and tracking collateral savings is more than the benefits to be derived. Collateral savings may be deleted from contracts for supplies and services as well as construction contracts.

Subcontractor VE

Prime defense contractors are encouraged to extend VE to their subcontractors. The FAR requires prime contractors to extend VE to their subcontractors on contracts of $100,000 or greater. Subcontracts for spare parts of $25,000 or more, for other than commercial items, are also to include VE provisions. However, VE may be extended to subcontractors on contracts of lesser value. Prime contractor to subcontractor VE arrangements can extend to the subcontractor a part of whatever share the prime contractor receives, including the instant or concurrent contract share, collateral share, and future contract share. The subcontractor must submit VECPs to the prime contractor who, in turn, submits them to the Government, if appropriate.

The sharing between the prime and the subcontractor is a matter for negotiation between them and should provide encouragement for the subcontractor to pursue VE and to submit VECPs to the prime contractor. It may also provide a savings share to the prime contractor, who is responsible for editing *a* subcontractor's VECP into proper format and for presenting it. to the Government. Any subcontractor development and implementation costs and the share of instant contract savings extended to the subcontractor 'are considered part of the prime contractor's development and implementation costs. However, note that agreements made between the prime contractor and the subcontractor cannot reduce the Government's share of concurrent, future, or collateral savings.

VECP Potential

A VECP may be submitted any time the contractor has an active DoD contract with a VE clause. VECP savings are usually time dependent. The potential savings are affected by the total quantity remaining to be produced and the non-recurring costs incurred to develop and implement the proposal. VECPs originated during the early stages of a program usually produce greater savings because they apply to a larger number of units and implementation costs such as changes to tooling, facilities, drawings, and manuals are not as great. As a program matures, the savings benefit per VECP may decrease but the potential for VECPs may increase due to advancing technology. As long as the potential savings exceed the cost of developing and implementing a VECP, the VECP can be beneficial.

Many items in the DoD inventory are procured according to old specifications in large quantities on a regular basis. Due to advances in technology, materials, and processes, the specifications that apply become outdated and may force "technology regression" on a contractor to produce from the old specifications. Therefore, any items procured on a repetitive basis to old specifications are good candidates for VE. VECPs may be used to add a qualified, low-price, new source to a drawing if the Government has not previously required or funded the second source effort.

Another potential for VE may be found in items that were designed on a stringent schedule to meet urgent requirements. Under these conditions, the designers often incorporate the known components or subsystems into the design simply because time would not permit qualification of an improved substitute. Subsequently, a newer, less expensive or more reliable alternative may have been developed and proven which can be introduced by submitting a VECP.

VECP Basic Requirements

The VECP should be prepared with sufficient information so that a thorough evaluation may be conducted by the Government with mimimum delay. The FAR requires that as a minimum, the following information be submitted with a VECP:

- A description of the difference between the existing contract requirement and the proposed change, and the comparative advantages and disadvantages of each.

- A listing and analysis of each contractual requirement which must be changed if the VECP is accepted, plus any recommendations the contractor may have for changing specifications.

- A detailed cost estimate for both the old and proposed methods. The contractor must account for estimated development and implementation costs including any costs attributable to subcontractors. Also, the contractor must include a description and estimate of costs the Government may incur in implementing the VECP, such as test and evaluation as well as any changes in operating and support costs or procedures.

- A prediction of the collateral cost saving or increase that the Government would experience if the VECP is implemented.

- Identification of the time that a contract modification implementing the VECP must be issued in order to get maximum savings, plus any effect it will have on the delivery schedule or contract performance time.

- Identification of any previous submissions of the VECP, including the dates submitted, agencies involved, numbers, and previous actions by the Government.

- Identification of the unit (item or task) to which the VECP applies.

- Statement that it is being submitted according to the VE clause.

VECP Preparation

Although the FAR clause relative to VE does not specify a particular format in preparing a VECP, it is highly probable that either DoD-STD-480A or MIL-STD-481A is listed as a contract requirement. One of these standards, both of which are entitled "Configuration Control," governs the format to be followed in submitting a VECP it they applies. A review of the contract determines which, if either, of these standards applies. If neither is specified, the contracting officer may specify the format to be used.

A transmittal letter for each VECP sent to the contracting officer is an important ingredient for a successful action. It should state that the VECP is being submitted pursuant to the VE clause of the contract. Also, it should summarize the contents of the VECP. It should briefly state the estimated cost changes, the nature of the proposed change, and the reference where complete details can be found in the proposal. The transmittal letter also serves as a marketing document that brings out the highlights of the proposals; It should emphasize the technical advantages and cost benefits to the Government. If the VECP contains data the contractor wishes to restrict, a statement to that effect must be included in the proposal. Figure III-2 is an example of a VECP format.

VECP Data Rights

When the proper legend is affixed to a VECP, the data therein shall not be disclosed outside the Government or duplicated, used, or disclosed, in whole or in part, for any purpose other than to evaluate a VECP submitted under the clause. This restriction does not limit the Government's right to use information contained in these data if it has been obtained or is otherwise available from the contractor or from another source without limitations. Failure to identify, mark, and propose data rights in an accepted VECP allows the Government to have unlimited rights to all data in the VECP as well as supporting data.

If a VECP is accepted, the contractor grants the Government unlimited rights in the VECP and supporting data. Except that, with respect to data qualifying and submitted as limited rights technical data, the Government has the rights specified in the contract modification implementing the VECP.

The Government has the right to furnish the listed technical data to a supplier for performance of work required to implement the VECP, but must protect the proprietary data from unauthorized use, duplication, or disclosure.

Contested VE Decisions

The courts have been reviewing cases and handing down appeal decisions since 1963. These decisions help to clarify the Federal-regulations and must be taken into account in those areas where the actions are germane.

These decisions are published regularly as "Armed Services Board of Contract Appeals Decisions," "Contract Cases Federal," "Comptroller General Board Cases," and "U.S. Court of Claims Decisions."

They can be found through the publications of the Commerce Clearing House, 4025 W. Peterson Avenue, Chicago, IL 60646. "A Compendium of Contested Values Engineering Actions" is also available from the Electronics Industries Association, 2001 Eye Street, N.W., Washington, D.C. 20006.

SAMPLE VECP FORMAT

NOTE TO CONTRACTORS:

The attached VECP and the transmittal letter shown below are samples of the minimum information which must be submitted by the contractor to meet the requirements of Part 48, "Value Engineering," of the Federal Acquisition Regulation (FAR).

XYZ MANUFACTURING CO.
MAIN STREET
YOURTOWN, STATE ZIP

DATE : _____

SUBJECT : Contract No. _____, Value Engineering Change Proposal, VECP - No. 3, Redesign Antenna Support, P/N 3001-1

TO: _____

NOTE TO CONTRACTOR:

Fill in procuring contracting officer's name, title, procuring agency, and address

Enclosures: 1. Value Engineering Change Proposal No. 3.
2. Drawing of proposed Antenna Support.
3. Test report.

1. The attached Value Engineering Change Proposal is submitted pursuant to Contract No. _____, General Provision No. _____ titled "Value Engineering Incentive."

2. This proposal contemplates a reduction in cost of the Antenna Support through redesign, change of material, and improved manufacturing procedures. The proposed change will be accomplished without sacrifice to system integrity and reliability.

Sincerely,

X. Y. Zee
President

Copy furnished:
DCAS Area Office
ATTN: ACO

Figure III-2

VALUE ENGINEERING CHANGE PROPOSAL NO. 3

1. Difference between existing and preposed Antenna Support.

a. Existing Support:

The present design consists of a plate formed from .032 thick 6061 aluminum alloy sheet which mates with the aircraft fuselage nose section. The plate is welded to a .025 thick 6061 aluminum alloy tube which is formed by rolling and welding. Standard tubing is not used because of the size required. An adapter is supplied by the Government to mate with the antenna element.

b. Proposed Change:

The new support assembly shall be formed fiberglass with an integral mounting flange and adapter assembly. The assembly shall be impregnated with epoxy resin Type 1, Class 2, per MIL-R-9300. The support will have a .032 wall thickness and a .050 flange thickness. The drilling of six attachment holes and the addition of a grounding strap will complete the assembly.

c. Comparative Advantages and Disadvantages:

(1) The proposed antenna support will be:

(a) Interchangeable with present support assemblies.

(b) Lighter by 2.5 pounds.

(c) Resistant to corrosion.

(d) Permanently colored to match the aircraft's color scheme.

(2) We foresee no disadvantages to this proposed change.

2. Recommended changes to contract and identification to unit:

a.. Delete line item number 1: P/N 3001-1 mfg. in accordance with Gov't Procurement Package number 3001-81996, Revision C., dated, 3 January 19XX.

b. Delete requirement for Government furnished adapter, P/N 1234.

Figure III-2 (continued)

c. Add new line item number 1: Williams Manufacturing Company P/N WMC 3001-1, manufactured in accordance with WMC drawing number 3001, dated 1 November 19XX.

3. Reduction in contract cost:

a.	Current contract unit price	$36
b.	Estimated unit price of proposed part	23
c.	Gross estimated unit saving (a-b)	$13
d.	Total gross savings (2000 @ $13)	$26,000
e.	Estimated contractor non-recurring costs for VECP development and implementation (includes engineering development, prototype, testing and production tooling)	5,000
f.	Net savings (d-e)	$21,000

4. Estimated Government cost for implementing VECP

Test and evaluation	$3,000

5. Reduction in collateral costs

Elimination of Government furnished adapter (2000 @ $4.00)	$8,000

6. Required approval date for maximum savings:

Indicate date (day, month, year) by which approval is required to achieve maximum savings.

7. Submittal of Previous Proposals:

This proposal has not been submitted under previous Government contract.

NOTE TO CONTRACTORS:

Add any other information pertinent to your VECP . Example: Cost to qualify new item, drawings, sketches, photographs, restrictive data rights per FAR.

Figure III-2 (continued)

VECP Distribution

The FAR governs the distribution of a VECP. It requires that VECPs be sent to the PCO and, when the contract is administrated by other than the purchasing agency, a copy of the VECP must be sent at the same time to the administrative contracting officer (ACO). It is extremely important that the ACO receive a copy of each VECP as the ACO is responsible for periodic follow-up with the PCO on all VECPS during the evaluation process. Also, the ACO must be made aware of a VECP to expedite its evaluation and to support the decision process by the PCO and the ESA.

Government Response

A response to the contractor is due within 45 days. If it is not possible to evaluate and reach a decision by that time, then the PCO shall notify the contractor of the status of the VECP within 45 calendar days after it is received by the contracting office. The contractor shall be provided the reason for the delay, and be advised of the expected date of the contracting officer's decision. VECPs will be processed expeditiously. However, the Government assumes no liability for delay in acting on them.

The PCO shall accept the VECP by modification to the contract. If the VECP is not accepted, the contracting officer shall write the contractor explaining the reasons for rejection. The contractor may withdraw, in whole or in part, any VECP not accepted by the Government within the period specified in the VECP . The decision whether or not to accept a VECP rests solely with the PCO and may not be disputed by the contractor.

Summary

DoD contracting officers are expected to encourage prime contractors to submit VECPs that reduce cost and to offer a reasonable share of the resulting savings as a reward for the effort undertaken by the contractor. There are two types of VE contract clauses. The VEI clause entitles the contractor to a share of the savings resulting from accepted proposals which it initiates. The second clause is the VEPR which requires the contractor to undertake a specified VE program as a contract line item in accordance with MIL-STD-1771. For supply and service contracts, either clause entitles the contractor to share in savings, not only on the instant contract, but also on concurrent contracts, future contracts, and collateral savings. The VE sharing rates are standardized for instant, concurrent, and future contracts, depending upon the VE clause and type of contract. Prime contractors are encouraged to extend VE to their subcontractors. The preparation and format of the VECP should be in accordance with the requirements contained in the contract or as specified by the contracting-officer. Government personnel are expected to process the VECPs as expeditiously as possible, and to keep the contractor informed as to the status of VECPs.